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COLLECTIVE BARGAINING BY FARMERS: THEORY AND APPLICATION

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Genuine concern has been expressed about the consequences of the radical transformation that is currently occurring in the economic organization of American agriculture. Increased bargaining power for agricultural producers has received considerable attention as a means for maintaining, even expanding, the importance of, and income to, the proprietary farmers in the U.S. This attention is manifested in efforts to obtain legislation that will facilitate collective bargaining by farmers. One such proposal, the Ohio Agricultural Marketing Rights Bill of 1973, is the primary focus of this Conference.

My attention today will be directed primarily toward the question, "What changes can we expect in agricultural marketing as a result of legislation such as the Ohio bargaining proposal?" For an adequate answer we must examine: 1) the potential benefits that can accrue to farmers through collective bargaining; 2) the market situations in which collective bargaining can be effective; 3) the conditions that must be met

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for effective bargaining; 4) the commodity markets in Ohio to determine where the proposed legislation will likely have its greatest impact; and, 5) the implications of collective bargaining by farmers for different groups within our society.

Potential Bargaining Gains

It is important that farmers have realistic expectations of the economic gains that can be achieved from collective bargaining. There are four major sources of such gains, some of which can and others that cannot reasonably be expected as a result of the Ohio legislative proposal. Let me discuss each briefly.

1. Handlers' Profits -- Farmers can bargain away some or all of any excess profits currently being earned by the handlers and processors to whom they sell. This potential, however, is not great. For the most part, handlers and other processors of Ohio's agricultural commodities are not earning high profits and little gain can be expected from any attempt to squeeze their profits. If processing becomes unprofitable, handlers will be forced to close or to buy their commodities from producers in other areas, neither very desirable alternatives. Most processors operate in national markets, thus they cannot pay significantly higher prices in Ohio than their competitors pay in other areas. Most bargaining efforts organized on a local or area basis cannot realistically expect to achieve substantial economic gains from this source.

2. <u>Higher Consumer Prices</u> -- The largest potential for gains from bargaining is to negotiate for higher prices that are passed on to consumers. Substantial price increases can be realized if the bargaining opponent has the capacity to pass on the higher costs to their customers. The apparent success of labor unions in the automobile industry stands as an example. However, this can occur only when the handler or processor has a high degree of monopoly power in the markets in which he sells and when close substitute products do not exist. Seldom will a local or regional farmer bargaining association be facing a handler who possesses such awesome market power. This occurs even more infrequently when the bargaining association deals with handlers on a plant-by-plant basis, as would be required under the Ohio proposal. Thus, the potential for Ohio farmers to realize economic gains from this source is also rather small.

3. <u>Improved Handler Efficiency</u> -- A significant source of potential bargaining gains under the Ohio proposal is to capture savings from lower cost operations in handling, processing, and distribution. The absence of excess profits among handlers is not conclusive evidence that the prices paid to farmers could not be increased without higher resale prices. The handlers may be operating inefficiently. That is, they may have more employees than necessary, they may be paying higher than competitive wages and salaries, or they may be engaged in practices that are economically wasteful. For example, there may be duplicate assembly or distribution routes or promotional activities which do not expand sales for

the industry as a whole. Likewise, firms may be operating small facilities and not capturing all existing economies of size. In many cases, collective bargaining could force handlers to achieve size economies by consolidating their plant operations and to discipline their own operations to eliminate competitively wasteful practices. The resulting savings could then be reflected in higher prices paid to the members of the bargaining association.

4. Market Coordination -- Not only could bargaining force handlers to clean up their own house, but in many cases the bargaining association may also be able to offer cost reductions or other advantages to the handlers. In our modern, industrialized food merchandising system accurate coordination of production and marketing activities is necessary to assure that processors have an adequate supply of the desired quality of agricultural products necessary to fulfill the consumer demands that they have created in their resale markets. Thus, assured supplies meeting the quality, quantity and timing specifications of the handlers have significant value to the handlers. A bargaining association may be able to guarantee handlers the requisite flow of commodities, thus improving coordination in the marketing system and performing a service of true economic value. The association may also be able to provide improved market information, assist producers in production decisions, provide mechanisms for adjudication of disputes between producers and handlers, and provide other services of value to the handler.

The economic gains that can be achieved due to improved market coordination, as well as those that can result from improved efficiency in handler operations, are benefits that can be realized by an individual handler on a plant-by-plant basis. These are the types of gains, therefore, that we can realistically expect bargaining associations to achieve under the provisions of state legislative proposals such as the Ohio Agricultural Marketing Rights Bill. Attempts to bargain substantial gains from the other two sources would probably be folly.

Market Conditions Favorable to Bargaining

To further our understanding of the potential for farmer bargaining in Ohio, we need to examine the market conditions under which collective bargaining is most likely to be a realistic alternative to the current market situation. These include the following:

1. Unequal Market Power -- Collective bargaining is a means of developing countervailing market power when farmers are selling in highly concentrated markets. When there are only one or two buyers for a given commodity in a relatively large area, individual farmers have little influence over their market. The buyers, large relative to the sellers, can dictate a disproportionately high share of the terms of exchange. Through a bargaining association, however, farmers can speak with one voice and more nearly equalize the powers on each side of the market counter. This situation is found in Ohio for many specialty crops, particularly fruits and vegetables. A typical tomato or grape growing area within the state, for example, will generally have one, at most two, handlers for that commodity.

2. Collapsed Pricing Mechanism -- In some markets, the open market price discovery mechanism has totally collapsed. That is, such a small quantity is moving through the open market that neither true supply nor demand conditions are accurately reflected. Thus, an open market price either does not exist or does not accurately reflect true market conditions. Prices that are received by producers are often distorted. Under these conditions producers may find that a collective bargaining association provides an effective framework for reflecting true supply conditions into the determination of price and other terms of trade. The egg market is a prime example of this phenomenon. Such a small share of the total egg supply moves through the open market that the central egg prices seldom accurately reflect market conditions, subjecting producers to distorted returns. Collective bargaining by egg producers could substantially improve the price discovery mechanism in this market and help stabilize producer returns.

3. Non-Price Competition -- For some food products the processing and retailing systems depend heavily upon non-price competition such as promotion, product differentiation and merchandising. For these products trading conditions do not splice well with a farm marketing system that is oriented primarily toward price. Collective bargaining may be an important means for reflecting important non-price variables back to the farm producer. There are indications that the slaughter livestock market, among others, is increasingly being characterized by such factors. The fast service hamburger

industry provides just one example. Having built a strong, continuous demand for a uniform product, hamburger merchandising firms have found it necessary to contract with producers and handlers to assure an adequate supply of the desired quality and quantity of ground beef. The incidence of this, however, is limited. While we do have some feeders operating under production contracts with food fabricators, this probably is not widespread enough at the present time to form a viable base for collective bargaining.

4. Production Contracts -- The pricing of some farm products has given way to production and marketing contracts with contract-making a handler-dominated activity. Collective bargaining is particularly applicable in these situations as a means of improving farmers' equity in the contract-making activities. It also can help to improve stability by allowing farmers to more actively participate in decisions concerning the quantities produced. The largest incidence of this marketing situation probably occurs in poultry. Certainly broiler producers would have much to gain through strong bargaining efforts with vertical integrators in the industry. Additionally, we are beginning to see some production and marketing contracts in the pork industry, both in feeder pigs and slaughter hogs. Whether this contracting activity becomes processor-dominated or not remains to be seen. However, an imbalance in the relative size and market power of the contractors and contractees does exist and handler domination could develop. Given such a development, swine producers might look to a bargaining association as means of maintaining equity in their markets.

5. Cyclical Production -- Some commodities have a history of recurrent cycles of over-production causing an erratic flow from farms to handlers and processors. For these commodities, collective bargaining associations may be able to stabilize product supply, aligning it more closely with demand. Dairy producers, through their cooperatives, have dramatically demonstrated the feasibility of this. Additionally, in the past we have had recurrent over-production of many other commodities. Attempts have been made to smooth the grain flow with contracts between producers and grain handlers, for example. Most recently, however, strong demands have eliminated over-production for many of these commodities and the need for contracts and other product flow instruments has moderated somewhat. Thus, pressures that might otherwise manifest themselves in collective bargaining efforts have been reduced.

Our brief analysis has revealed a number of market situations in agriculture where collective bargaining may be desirable. The extend to which collective bargaining can be effective in Ohio depends upon the existence of some or all of these market conditions and upon the ability of the proposed legislation to create an environment conducive to bargaining.

Prerequisites for Effective Bargaining

What constitutes an environment that is conducive to collective bargaining by farmers? Several conditions must exist or be created to facilitate truly effective bargaining. These necessary conditions are: (1) market control; (2) recognition; (3) member discipline; (4) production control; and, (5) economic rationality. A brief analysis of these conditions, relative to the provisions of the proposed Ohio marketing bill, is in order.

MARKET CONTROL refers to the ability of the bargaining association to control enough product to gain a successful bargain. That is, the competing handler must be unable to get a feasible alternative supply. If the association does not have the mechanism to control supply at the time it is bargaining, its effectiveness can easily be circumvented by the handler by securing supplies elsewhere. Generally speaking, if bargaining is to be successful, a bargaining organization for agricultural commodities must have about two-thirds to three-fourths of the current relevant supply.

It appears likely that under the Ohio proposal requiring the association to have contracts with producers supplying a specified percentage of the competing handler's purchases, adequate market control would be put in the hands of an accredited association. A question can be raised whether or not sixty percent of the historic supply is adequate. Perhaps this should be somewhat higher. Additionally, the provision allowing sixty percent of the historic producers to qualify for accreditation needs careful evaluation. If this sixty percent is composed primarily of relatively small producers, then the quantity represented would be well below sixty percent of the historic base. This would not be adequate for effective bargaining and could result in the accreditation of an association that could do little more than create false hopes among its members.

RECOGNITION means that the bargaining association must be recognized by its adversary as <u>the</u> representative of the producers from whom he buys. Without such recognition, handlers can engage in many strategies to evade bargaining collectively with the members of the association. The Ohio proposal, through provisions that require the association and handler to deal with one another and good faith bargaining between the two, apparently provides for the necessary recognition through statutory obligation.

MEMBER DISCIPLINE refers to the ability of the association to hold the member-producers together as a collective person of one. For effective bargaining, the association must speak unilaterally for its entire membership and must be assured that the members will adhere to any terms it negotiates on their behalf. If the member-producers are allowed to negotiate on their own during the time when the association is bargaining for them, the bargaining position of the association is seriously jeopardized. When the handler knows that individual members can sign contracts irrespective of the actions taken by the association, there is little incentive for him to bargain realistically with the association. It is much to his long-term advantage and to the producers' long-term disadvantage for farmers to act independent of their association. Nevertheless, producer loyalty in the nitty-gritty of bargaining has often been unreliable. The pending Ohio legislation, however, may alleviate this problem. By requiring the association to have firm production and marketing contracts with its members for accreditation, assurances are built in that an accredited association will, within the bounds of legal recourse, effectively speak for its entire membership.

PRODUCTION CONTROL is the ability to avoid a long-term supply surplus. Effective bargaining usually results in higher returns to producers. Higher returns encourage increased production, which in turn dissipates the bargained gains. If long-term dilution of such gains is to be avoided, the bargaining association must be able to effectively control the entire production of the commodity in the relevant area. Simply controlling that share of the output accounted for by its members is not sufficient. Control of production is a difficult component in any agricultural policy. Local or area bargaining efforts that don't mandate terms for all producers and handlers cannot adequately cope with the problem. This will be a major limitation to the long-term benefits of most bargaining efforts undertaken under state legislation. Only where a commodity is produced in a relatively small area and is not subject to competition from outside producers can local or area bargaining associations control the long-term supply situation. For other commodities, this problem could be moderated but not resolved by mandating area-wide or state-wide bargaining for all producers. Such a provision, however, would bulk heavily on the individual rights of farmers.

ECONOMIC RATIONALITY refers to an appreciation by the bargaining association that rational limits exist for potential bargaining gains. Farmers could be given strong powers to bargain, for example, but without production control it would be irrational to exercise such power. This would cause their own house to collapse. If producers push prices too high, it is rational for consumers to turn to substitute products or for handlers to vertically integrate into the production phases of the industry. The proposed Ohio Agricultural Marketing Rights Bill does open the door for economic irrationality with the voluntary binding arbitration provision, although it isn't open wide. A binding settlement could result from arbitration that would be detrimental to the long-term position of the producers while giving them substantial short-term advantages. The language of the proposal does not require consideration of the long-term economic consequences in the arbitration process. Such an additional requirement might be warranted.

The Ohio Situation

We have briefly evaluated the source of gains that may be achieved through bargaining, the market situations where these gains may be achieved, and the types of bargaining activities that would be facilitated by the Ohio proposal. With this background, we can evaluate the commodity markets in Ohio to determine what the probable impact of such legislation will be on those markets.

First, let's turn our attention to fruits and vegetables. It is in these industries where collective bargaining may be able to make its greatest progress in Ohio. Most of Ohio's fruit and vegetable markets are characterized by an imbalance of market power and a handler-dominated contracting procedure. Through collective bargaining, producers could substantially increase their influence over the contracting procedure. Additional economic gains could be achieved if the bargaining associations take on supply management and coordination activities for the handlers.

Many fruits and vegetables are produced in localized areas with producers in each area historically delivering to the same handler. Thus, the influence of competing supplies from other areas and of alternative market sources is not as significant as it is for other farm products. Localized production also enhances the ability of the association to affect the long-term supply.

The potential for supply control does not exist, however, for most of Ohio's other agricultural commodities. There are reasons to believe, nonetheless, that producers of some additional commodities may be able to benefit from collective bargaining. Two commodities with such potential are eggs and broilers. As noted earlier, the egg industry, in particular, is characterized by a lack of high volume central markets and the resultant price discovery mechanism. A bargaining association could improve market information and the price discovery process by more accurately reflecting supply conditions forward to handlers and at the same time more accurately reflecting demand conditions back to its producer-members. In general, however, egg producers are less traditionally tied to a specific handler, increasing the difficulty of organizing an effective bargaining association.

The broiler market offers high potential because of the dominant position of relatively few contractors vis-a-vis producers. Collective bargaining could help restore some influence over contract terms to producers and could also shift some industry profits or cost reductions into producers' accounts. Additionally, bargaining might be organized fairly easily in this industry because of producers' experience with contracts and a relatively small number of handlers. Competition from producers in other areas and substitute products, however, are limitations.

Under current conditions it is doubtful that new bargaining efforts of much substance will develop for other commodities. While dairy markets in the past have been characterized by periods of over-production and relatively high handler profits, effective collective bargaining has already been developed in these markets by dairy cooperatives operating under the Federal Market Order legislation. Thus, we are not likely to see much additional bargaining activity by dairy farmers as a result of new Ohio legislation.

In the livestock industries, there are currently few conditions conducive to collective bargaining. While there is limited incidence of contracting by food fabricators for slaughter livestock supplies, it hasn't grown to the point where many producers feel threatened in contract negotiations. Furthermore, alternative pricing and marketing mechanisms are emerging in the livestock industry, such as carcass grade and yield selling and wire auctions, that help to assure producers fair returns without increased market power.

We are beginning to see increased use of production and marketing contracts in the swine industry, however, particularly for feeder pigs and, to a lesser extent, slaughter hogs. Over time, if the incidence of these contracts increases and if the contracting procedure becomes handler dominated, contract swine producers may look to collective bargaining associations to protect their equity. Let me stress, however, this does not appear on the near horizon.

For grain crops the likelihood of much collective bargaining appears remote. Even though the number of marketing contracts is increasing, there are relatively few other conditions in the market that are conducive to collective bargaining. For example, there are strong central markets and a viable price discovery mechanism. No single handler tends to dominate any given market area, rather, a wide range of market alternatives exist for most producers. Additionally, because of the large number of producers dispersed over a wide geographic area, each with a number of market alternatives, it would be very difficult to define a bargaining association under provisions such as those included in the proposed legislation that tie an association to a specific handler.

Overall, therefore, the most striking and immediate effects of the proposed Ohio legislation would most likely be manifested in the vegetable and fruit markets, with the egg and broiler markets also possible candidates. Ohio's other agricultural commodities will likely be little affected in the near future.

Implications of Collective Bargaining by Farmers

Our analysis has indicated that certain groups of agricultural producers in Ohio, specifically those that produce fruits, vegetables, eggs and broilers and who elect to join a bargaining association, can be expected to achieve measurable economic gain. But, there are other segments of our society that would be affected as well. A discussion of the probable outcome of collective bargaining as a result of pending legislation would not be complete without examining the impacts on some of these groups.

First, the independent producer or non-member. Most efforts at collective bargaining have not easily handled the non-member problem. Labor unions, for example, force strong loyalty to the union, in effect eliminating non-members. That approach removes the right of the individual to hire out his labor as he sees fit. In agriculture, however, we have been concerned about protecting the rights of independent producers and their recourse to the marketplace. The proposed legislation reflects this concern. It does not require all producers of a commodity who sell to a given handler to join an association, nor does it require all such producers to abide by agreements reached between an association and a handler. Thus, theoretically at least, the independent producers' marketing rights are protected. However, in so doing, the effectiveness of the bargaining association is reduced by making it extremely difficult for the association to speak with a uniform voice for all producers. On the other hand, the association, in its attempt to secure maximum economic gain for its membership, may secure a full supply contract with the handler, thus effectively making access to market available only to its members. The conflict between bargaining effectiveness and individual rights is a difficult one to reconcile.

Secondly, let's look at the consequences to the handlers. To the extent that farmers' gains from bargaining come from improved system coordination, handlers could actually gain. But, when bargaining gains come in the form of higher prices, the handler is disadvantaged. Higher prices come either at the expense of his profits, from forced economies in his operation, or from higher prices passed on to his buyers. Obviously, reduced profits are to his disadvantage. Likewise, forced economies in his operation are painful as well. This may force him to reduce employment or expenditures for other things that are meaningful to handlers and the people in their employ. And, as pointed out before, handlers' ability to pass higher prices on to their buyers is limited by their competitors. Furthermore, when a handler is limited to dealing with one association, as would be the case under the Ohio proposal, his access to other sources of supply is preempted. Thus, the same freedom that we are careful to protect for the producer is infringed upon for the handler.

Next, a brief look at the consumer. In all probability, the effects of collective bargaining by farmers will be reflected in higher food and fiber costs to the consumer. Sound arguments can be made that the healthy proprietary agriculture resulting from strong bargaining by farmers will benefit the consumer. In the long run, those arguments have merit. But, consumers cannot expect to gain significantly in a direct manner, particularly in the short run. The benefits of a sound proprietary agriculture to society as a whole are indirect and long-term.

Lastly, let's look at the implications for the farmer cooperative. The larger cooperatives have the most to gain. Collective bargaining is a natural extension of their economic evolution. Such collective bargaining will help to assure the continuation of farmer cooperatives as an integral part of our agricultural society. However, the process of determining which cooperative should represent which farmers and under what conditions could prompt great conflict among various cooperatives and between cooperatives and processors. There is no provision in the Ohio proposal to help mitigate this problem.

Quite likely, the smaller cooperative will be placed at a disadvantage relative to the larger cooperative. While the smaller cooperative is not excluded as a bargaining agent, it will take substantial resources for any cooperative to secure contracts with that share of farm producers necessary for accreditation. The larger cooperative is probably in a better position to obtain the requisite number of contracts than is the smaller organization. Jurisdictional disputes among cooperatives should not be unexpected. Furthermore, handlers may find it to their advantage to fan such disputes as a means of preventing accreditation of any association.

Concluding Comment

The future of the proprietary American farmer, as we have known him, is in question. The pressures forcing change in the control of American agriculture call for institutional innovation in agricultural markets of the highest order. By presenting for your consideration the Ohio Agricultural

Marketing Rights Bill of 1973, our farm leaders are asking a responsible question about the wisdom and feasibility of enhanced bargaining power for farmers as one such innovation. If the proposed legislation is enacted, not only will the wisdom of such an institution be tested, but so will the leadership, statesmanship, and gamesmanship of farm leaders, agricultural producers and agribusinessmen.

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